Christiana Care Health System and Affiliates

Report on Federal Awards in Accordance with OMB Circular A-133

June 30, 2012

Federal Entity Identification Number 52-1479538

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Report of Independent Auditors

To the Board of Directors of
Christiana Care Health System and Affiliates:

In our opinion, the accompanying balance sheets and the related consolidated statements of operations, changes in net assets and cash flows present fairly, in all material respects, the financial position of Christiana Care Health System and Affiliates (the "System") as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2012 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

September 13, 2012

Christiana Care Health System and Affiliates
Consolidated Balance Sheets
June 30, 2012 and 2011

	2012	2011
Assets		
Current assets		
Cash and cash equivalents	$ 120,328,706	$ 138,829,023
Short-term investments	181,556,554	181,549,743
Patient accounts receivable, net of allowance for doubtful accounts of $18,302,485 in 2012 and $15,779,547 in 2011	193,662,015	169,537,939
Other current assets	47,996,199	48,638,466
Assets limited as to use	4,609,874	1,746,674
Total current assets	548,153,348	540,301,845
Assets limited as to use	137,106,618	181,021,668
Long-term investments	781,797,666	666,617,322
Property and equipment, net	687,542,026	644,555,434
Other assets	29,500,585	31,097,403
Total assets	$ 2,184,100,243	$ 2,063,593,672
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 189,319,819	$ 188,898,205
Accounts payable and accrued expenses	179,952,143	172,856,619
Estimated third-party payor settlements	14,886,780	16,657,512
Total current liabilities	384,158,742	378,412,336
Long-term debt, net of current portion	138,096,224	147,565,166
Pension and postretirement benefits	298,923,441	173,510,331
Other liabilities	64,100,552	57,930,131
Total liabilities	885,278,959	757,417,964
Net assets		
Unrestricted	1,226,582,799	1,229,656,472
Temporarily restricted	49,326,797	53,139,066
Permanently restricted	22,911,688	23,380,170
Total net assets	1,298,821,284	1,306,175,708
Total liabilities and net assets	$ 2,184,100,243	$ 2,063,593,672

The accompanying notes are an integral part of the consolidated financial statements.

Christiana Care Health System and Affiliates
Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011
Unrestricted operating revenues and other support		
Net patient service revenue	$ 1,396,228,503	$ 1,333,799,102
Provision for bad debts	(32,424,642)	(30,245,716)
Net patient service revenue less provision for bad debts	1,363,803,861	1,303,553,386
Other revenue	65,239,296	67,869,711
Net assets released from restrictions	3,065,128	2,246,471
Total unrestricted operating revenues and other support	1,432,108,285	1,373,669,568
Operating expenses		
Salaries and employee benefits	854,190,724	811,879,022
Supplies and other expenses	407,489,363	395,086,647
Interest expense	2,325,338	2,586,944
Depreciation and amortization	76,732,771	76,322,447
Total operating expenses	1,340,738,196	1,285,875,060
Operating gain	91,370,089	87,794,508
Nonoperating revenues, gains, and losses		
Investment income	15,894,085	123,646,325
Other gains, net	1,848,773	366,069
Total nonoperating revenues, gains, and losses	17,742,858	124,012,394
Excess of revenues over expenses	$ 109,112,947	$ 211,806,902

The accompanying notes are an integral part of the consolidated financial statements.

Christiana Care Health System and Affiliates
Consolidated Statements of Operations and Changes in Net Assets, continued
Years Ended June 30, 2012 and 2011

	2012	2011
Unrestricted net assets		
Excess of revenues over expenses	$ 109,112,947	$ 211,806,902
Net assets released from restrictions used for purchase of property and equipment	4,729,241	686,426
Minority interest distribution	(96,704)	(37,994)
Other changes in pension and postretirement liabilities	(116,424,787)	93,643,461
(Decrease) increase in unrestricted net assets before discontinued operations	(2,679,303)	306,098,795
Effect of discontinued operations	(394,370)	(3,716,347)
(Decrease) increase in unrestricted net assets	(3,073,673)	302,382,448
Temporarily restricted net assets		
Contributions	3,797,688	10,971,215
Interest and dividend income	157,879	642,859
Net realized gains	26,533	173,169
Net assets released from restrictions	(7,794,369)	(2,932,897)
(Decrease) increase in temporarily restricted net assets	(3,812,269)	8,854,346
Permanently restricted net assets		
Change in net realized (losses) gains	(468,482)	747,185
(Decrease) increase in permanently restricted net assets	(468,482)	747,185
(Decrease) increase in net assets	(7,354,424)	311,983,979
Net assets		
Beginning of year	1,306,175,708	994,191,729
End of year	$ 1,298,821,284	$ 1,306,175,708

The accompanying notes are an integral part of the consolidated financial statements.

Christiana Care Health System and Affiliates
Consolidated Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Change in net assets	$ (7,354,424)	$ 311,983,979
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Effect of discontinued operations	394,370	3,716,347
Depreciation and amortization	76,732,771	76,322,447
Net realized and unrealized gains on investments	(2,412,197)	(108,967,036)
Provision for bad debts	32,424,642	30,245,716
Loss on disposal of asset	524,439	307,274
Restricted contributions and investment income received	(3,749,545)	(4,920,463)
Minority interest distribution	185,746	102,627
(Increase) decrease in		
Patient accounts receivable	(56,548,718)	(41,828,034)
Other current assets	642,267	(6,503,272)
Other assets	746,243	(9,042,977)
Increase (decrease) in		
Accounts payable and accrued expenses	(366,229)	(3,219,751)
Estimated third-party payor settlements	(1,770,732)	2,613,025
Pension and postretirement benefits	125,775,164	(106,916,709)
Other liabilities	5,973,063	360,311
Net cash provided by continuing operations	171,196,860	144,253,484
Net cash provided by discontinued operations	-	62,630
Net cash provided by operating activities	171,196,860	144,316,114
Cash flows from investing activities		
Purchase of property and equipment, net	(113,317,517)	(97,026,836)
Proceeds from sale of investments and assets limited as to use	619,346,078	501,136,365
Purchase of investments and assets limited as to use	(691,069,186)	(785,990,797)
Net cash used in investing activities	(185,040,625)	(381,881,268)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	-	200,195,000
Repayment of long-term debt	(8,849,970)	(8,373,508)
Restricted contributions and investment income received	3,749,545	4,920,463
Debt issuance costs	-	(246,225)
Securities lending	629,619	(1,896,307)
Net joint venture activity	(185,746)	(635,149)
Net cash (used in) provided by financing activities	(4,656,552)	193,964,274
Net decrease in cash and cash equivalents	(18,500,317)	(43,600,880)
Cash and cash equivalents		
Beginning of year	138,829,023	182,429,903
End of year	$ 120,328,706	$ 138,829,023
Supplemental disclosure of cash flow information		
Cash paid for interest, net of amounts capitalized	$ 1,212,184	$ 2,855,970

The accompanying notes are an integral part of the consolidated financial statements.

1. Description of the Organization

Christiana Care Health System (the "System") is the parent organization of Christiana Care Health Services, Inc. ("Health Services"), Christiana Care Health Initiatives ("Health Initiatives"), Christiana Care Home Health and Community Services, Inc. ("CCHHCS") and Christiana Care Health Plans, Inc. ("Health Plans").

The System is a not-for-profit Delaware corporation whose primary activity is to accept gifts and bequests and engage in fund raising activities for the benefit of the Christiana Care affiliates.

Health Services, a Delaware not-for-profit corporation, owns and operates: Christiana Hospital, Wilmington Hospital, Eugene duPont Preventive Medicine and Rehabilitation Institute, a physician network, and residency training programs. Health Services' primary activity is to provide healthcare services to the residents of Delaware and the surrounding counties in Maryland, Pennsylvania, and New Jersey.

Health Initiatives, a nonprofit corporation, provides health services primarily in the areas of imaging, physical therapy, and oversight of joint-ventures.

CCHHCS is a nonprofit health care agency which provides professional health-care and other services in the home and community.

Health Plans, a Delaware not-for-profit corporation, offered managed care products for the Medicaid and commercial markets, until its exit from the insurance business in 2005. Although Health Plans continues to maintain its status as a licensed insurance company it remains an inactive subsidiary.

2. Summary of Significant Accounting Policies

Basis of Accounting
The System's financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Principles of Consolidation
The consolidated financial statements include the accounts of the System and its controlled affiliates identified above. All significant intercompany accounts and transactions have been eliminated.

Basis of Presentation
The System reports its net assets by classifying net assets into three categories according to donor imposed restrictions. A description of these categories is as follows:

Unrestricted net assets are free of donor imposed restrictions; all revenues, expenses, gains and losses that are not changes in temporarily or permanently restricted net assets.

Temporarily restricted net assets include gifts for which donor imposed restrictions have not been met and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted.

Permanently restricted net assets include gifts, trusts and pledges which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Patient Service Revenue and Patient Accounts Receivable

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per-diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The System recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered.

For uninsured patients who do not qualify for charity care, the System recognizes revenue based on established rates, subject to certain discounts as determined by the System. An estimated provision for bad debts is recorded that results in net patient service revenue being reported at the net amount expected to be received. The System has determined that patient service revenue is primarily recorded prior to assessing the patient's ability to pay and as such, the entire provision for bad debts related to patient revenue is recorded as a deduction from patient service revenue in the accompanying statements of operations and changes in net assets. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), for the year ended June 30, 2012 from these two payor sources are as follows:

	Third-Party Payors	Self-Pay	Total
Patient service revenue (net of contractual allowances and discounts)	96.8 %	3.2 %	100.0 %

Revenue from the Medicare and Medicaid programs accounted for approximately 31% and 12%, respectively, of the System's net patient service revenue for the year ended June 30, 2012 and 32% and 12%, respectively, for the year ended June 30, 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2012 and 2011 net patient service revenue increased approximately $360,000 and $1,498,000, respectively, because of tentative settlements and final settlements for years that are no longer subject to audits, reviews, and investigations, as well as other changes in estimates.

Patient accounts receivable are reduced by an allowance for doubtful accounts. The allowance for doubtful accounts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in healthcare coverage, major payor sources, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for doubtful accounts based upon historical write-off experience by payor category. The results of this review are then used to make modifications to the provision for bad debts to establish an appropriate allowance for doubtful accounts.

For patient accounts receivable associated with self-pay patients, which includes patients that fail to make payment for services rendered or insured patients who fail to remit co-payments and deductibles as required under the applicable health insurance arrangement, the System records an estimated provision for bad debts in the year of service. The System has experienced an increase in the provision for bad debts as a result of current economic conditions and rising patient responsibility balances.

Charity Care

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the System does not pursue collections of amounts determined to qualify as charity care, they are not reported as revenue.

Electronic Health Record Incentive Program

The Centers for Medicare & Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, eligible hospitals, and critical access hospitals, as defined, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. Health Services records payments using the gain contingency accounting model. Accordingly, when all contingencies have been met and the funds have been received, Health Services recognizes these incentives as "other gains" within the nonoperating revenue section in the Statement of Operations and Changes in Net Assets. For the 2012 fiscal year Health Services received and recorded approximately $2.7 million as all contingencies have been met.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less. At June 30, 2012 and 2011, the System had cash balances in financial institutions which exceed federal depository insurance limits. Management believes that the credit risk related to these deposits is minimal.

Inventories

Inventories are stated at the lower of cost (determined by the first-in, first-out method) or market.

Investments and Assets Limited as to Use

Investments and assets limited as to use are measured at fair value in the balance sheets based on the methodology described in Note 3. Managed funds represent subscriptions in funds-of-funds utilized to diversify the portfolio of Health Services. As a practical expedient, Health Services estimates the fair value of managed funds using the reported net asset value (NAV). If the NAV is not calculated on the measurement date Health Services utilizes valuation techniques to determine if adjustment is necessary for consistent reporting. Health Services has assessed factors such as the managed funds' compliance with fair value reporting standards, price transparencies and valuation procedures, the ability to redeem at NAV at the measurement date, and existence of redemption restrictions at the measurement dates. Health Services is required to provide written notice of at least 90 calendar days prior to a calendar quarter-end to redeem managed funds. There are no lock-up provisions. Investment income or loss (consisting of realized and unrealized gains and losses on investments, interest, and dividends) are included in the excess of revenues over expenses unless the income or loss is restricted by donor.

Assets limited as to use primarily include (i) assets held by trustees under indenture agreements, and (ii) designated assets set aside by the Board of Directors ("Board"). Assets limited as to use classified as current in the balance sheets represent bond proceeds to pay unpaid construction associated with the Wilmington Hospital project (Note 8).

Investments classified as current in the balance sheets are for amounts required to meet current liabilities and other operating needs of the organization.

Health Services classifies investments as trading securities. Investment income or loss generated by trading securities is classified within nonoperating revenues, gains, and losses within the statement of operations and changes in net assets. Health Services considers the activity of the investment portfolio and the associated cash receipts and cash purchases resulting from purchases and sales of investments classified as trading securities as an investing activity and classifies this activity accordingly within the statements of cash flows.

Property, Equipment, and Depreciation

Property and equipment acquisitions are recorded at cost. Expenditures which substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method based on the following estimated useful lives: Buildings and building improvements 5-40 years; Equipment 3-20 years. Gains and losses from retirement or disposition of fixed assets are recognized in the statement of operations as nonoperating activity. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted contributions at fair value as of the date of the gift, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Securities Lending

Health Services engages in securities lending whereby certain securities in its portfolio are loaned to other parties generally for a short period of time. Health Services receives collateral equal to 102% of the market value of securities borrowed. Health Services records the fair value of the collateral received as both other current assets and other current liabilities as Health Services is obligated to return the collateral upon the return of the borrowed securities. Other current assets and liabilities include $1,673,610 and $1,043,991 of collateral investments at June 30, 2012 and 2011, respectively.

Deferred Financing Costs

Deferred financing costs are recorded within other assets and represent the cost of issuing long-term debt. Such costs are being amortized over the life of the applicable indebtedness using the interest method. Deferred financing costs totaled $2,336,670 and $2,551,764 at June 30, 2012 and 2011, respectively.

Investments Held in Trust

Health Services is entitled to beneficial interests in perpetual trusts at various percentages, which are maintained by outside trustees. Health Services' share of the market value of the trusts are recorded in permanently restricted net assets. Unrealized gains and losses are also recorded as permanently restricted. The periodic income distributions received from the trustees are recorded as increases in unrestricted or temporarily restricted net assets, based on the donors' intentions.

Excess of Revenue over Expenses

The statement of operations includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), other changes in pension and postretirement liabilities, and the effect of discontinued operations.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. The contributions are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Compensated Paid Leave

The System records a liability for amounts due to employees for future paid leave which are attributable to services performed in the current and prior periods.

Tax Status

The System and its affiliates, except for Health Plans, are exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In 1999, Health Plans reorganized, forming a taxable entity under the Internal Revenue Code.

In March 2010, the Internal Revenue Service (IRS) announced that for periods ending before April 1, 2005, medical residents would be eligible for the student exemption of Federal Insurance Contributions Act (FICA) taxes. As a result, organizations that had filed timely FICA refund claims covering periods up through that date are eligible for refunds of both the employer and employee portions of FICA taxes paid, plus statutory interest. Health Services completed the claim filing process in December 2010. Estimated net refunds of approximately $9.3 million and $9.6 million are recorded in other current assets in the accompanying June 30, 2012 and 2011 balance sheets, respectively. Additionally, within the statement of operations for the year ended June 30, 2011, Health Services recorded a reduction in employee benefits expense of $6.6 million representing the previous overpayment of FICA taxes and $3 million within nonoperating gains representing the statutory interest associated with the claim recovery. A reduction of the estimated net refund resulted in an increase in employee benefits expense of $0.3 million for the year ended June 30, 2012.

Subsequent Events

The System has performed an evaluation of subsequent events through September 13, 2012, which is the date the financial statements were available to be issued.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. This includes the reclassification of the provision for bad debts associated with patient service revenue from operating expenses to a deduction from net patient service revenue on the Consolidated Statements of Operations and Changes in Net Assets and as a result of early adoption of new accounting standards. The provision for bad debts reclassification also caused the 2011 functional expenses, disclosed in Note 15, to be reduced.

3. Investments, Assets Limited as to Use, and Investment Income

The composition of investments and assets limited as to use at June 30, 2012 and 2011 is set forth in the following table. Investments and assets limited to use are stated at fair value.

	2012	2011
Short-term investments	$ 181,556,554	$ 181,549,743
Assets limited as to use		
Externally designated by bond trustee		
Construction funds	115,505,750	157,775,244
Escrow funds	23,428	23,428
Total externally designated	115,529,178	157,798,672
Internally designated by board of directors		
Cancer program	26,187,314	24,969,670
Total assets limited as to use	141,716,492	182,768,342
Long-term investments		
Unrestricted	717,440,107	602,007,406
Temporarily restricted	46,899,270	46,685,551
Permanently restricted	17,458,289	17,924,365
Total long-term investments	781,797,666	666,617,322
Total investments and assets limited as to use	$ 1,105,070,712	$ 1,030,935,407

Within the Statement of Operations, investment income is comprised of the following:

	Year Ended June 30, 2012	Year Ended June 30, 2011
Interest and dividend income	$ 13,481,888	$ 14,679,289
Net realized gains	10,248,049	24,198,645
Change in net unrealized (losses) gains	(7,835,852)	84,768,391
	$ 15,894,085	$ 123,646,325

The System adheres to applicable accounting guidance for fair value measurements and defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The System applies the following fair value hierarchy:

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets include money market funds, debt and equity securities that are traded in an active exchange market, as well as certain U.S. Treasury and other U.S. Governments and agency securities that are highly liquid and are actively traded in over-the counter markets.

Level 2 Observable inputs other than Level 1 such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Level 2 assets include equity, and fixed income managed funds, and swap arrangements with quoted prices that are traded less frequently than exchange-traded instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets include equity managed funds and investments held in trust by others whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Transfers between leveled assets are based on the actual date of the event which caused the transfer. As of June 30, 2012 and 2011 there were no transfers between Levels 1, 2, and 3.

The following table presents the financial instruments carried at fair value as of June 30, 2012 in accordance with the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Investments and assets limited as to use				
Money market funds	$ 225,488,229	$ -	$ -	$ 225,488,229
U.S. Government and agency securities	40,460,235	78,493,162	-	118,953,397
Corporate and other debt securities	-	176,786,954	-	176,786,954
Equity securities	357,024,121	151,203,887	-	508,228,008
Equity managed funds	-	-	68,594,812	68,594,812
Investments held in trust by others	-	-	7,019,312	7,019,312
Total investments and assets limited as to use	622,972,585	406,484,003	75,614,124	1,105,070,712
Total assets at fair value	$ 622,972,585	$ 406,484,003	$ 75,614,124	$ 1,105,070,712

The following table illustrates the change in Level 3 assets:

	Investments Held by Others	Equity Managed Funds
Fair value at July 1, 2011	$ 7,487,794	$ 57,760,812
Purchases	-	13,000,000
Realized (losses) gains	(24,720)	6,466
Net change in unrealized gains/losses	(443,762)	(2,172,466)
Fair value at June 30, 2012	$ 7,019,312	$ 68,594,812

The following table presents the financial instruments carried at fair value as of June 30, 2011 in accordance with the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Investments and assets limited as to use				
Money market funds	$ 244,694,677	$ -	$ -	$ 244,694,677
U.S. Government and agency securities	29,999,773	53,370,968	-	83,370,741
Corporate and other debt securities	-	264,018,720	-	264,018,720
Equity securities	236,003,044	137,599,619	-	373,602,663
Equity managed funds	-	-	57,760,812	57,760,812
Investments held in trust by others	-	-	7,487,794	7,487,794
Total investments and assets limited as to use	510,697,494	454,989,307	65,248,606	1,030,935,407
Swap arrangements	-	537,337	-	537,337
Total assets at fair value	$ 510,697,494	$ 455,526,644	$ 65,248,606	$ 1,031,472,744

The following table illustrates the change in Level 3 assets:

	Investments Held by Others	Equity Managed Funds
Fair value at July 1, 2010	$ 6,740,609	$ -
Purchases	-	54,500,000
Realized gains	172,243	447,848
Net change in unrealized gains/losses	574,942	2,812,964
Fair value at June 30, 2011	$ 7,487,794	$ 57,760,812

4. Property and Equipment

A summary of property and equipment at June 30, 2012 and 2011 is as follows:

	2012	2011
Land and land improvements	$ 62,841,397	$ 40,808,680
Land held for future use	-	20,360,888
Buildings and building improvements	814,758,283	796,215,484
Equipment	566,985,003	606,326,810
Leasehold improvements	3,421,826	6,714,717
	1,448,006,509	1,470,426,579
Accumulated depreciation	(895,735,557)	(901,428,148)
	552,270,952	568,998,431
Construction-in-progress	135,271,074	75,557,003
	$ 687,542,026	$ 644,555,434

Depreciation expense amounted to $76,087,504 and $75,770,310 in 2012 and 2011, respectively. In 2012 and 2011, the System incurred total interest costs of $8,268,452 and $4,811,131, respectively, of which $5,943,113 in 2012 and $2,224,187 in 2011 has been capitalized. At June 30, 2012 construction contracts of $217,428,789 exist for various expansion and other facility improvements. The remaining commitment on these contracts was $124,767,766. Included in the remaining commitment is $119,687,325 for the Wilmington Hospital Campus and Middletown Campus expansions. Wilmington Hospital construction is expected to be completed in 2014, and the Middletown expansion is expected to be completed in 2013. At June 30, 2012 and 2011, $10,065,865 and $3,595,784, respectively, of property and equipment purchases had not been paid and accordingly, were accrued in other accrued expenses and current liabilities.

5. Other Assets

Other Assets at June 30, 2012 and 2011 consist of the following:

	2012	2011
Deferred financing costs	$ 2,336,670	$ 2,551,764
Long term deposits	1,400,000	1,400,000
Value of interest rate swap	-	537,337
Goodwill	1,277,009	1,518,120
Other	22,735,700	23,353,305
Assets held for sale	1,751,206	1,736,877
	$ 29,500,585	$ 31,097,403

During the 2010 fiscal year Health Services committed to a plan to sell the property and equipment at the Riverside Health Care Center (Note 16). The carrying value of this property and equipment, which approximates its fair value less costs to sell, is separately presented within other assets in the balance sheet.

6. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2012 and 2011:

	2012	2011
Health care services	$ 6,265,826	$ 6,718,485
Purchases of buildings and equipment	29,569,147	33,589,047
Education, research and other operational needs	13,491,824	12,831,534
	$ 49,326,797	$ 53,139,066

Permanently restricted net assets consist of the following at June 30, 2012 and 2011:

	2012	2011
Investments held in perpetuity	$ 15,892,376	$ 15,892,376
Investments held in trust by others	7,019,312	7,487,794
	$ 22,911,688	$ 23,380,170

7. Endowments

The Systems' endowment consists of approximately twelve individual donor restricted endowment funds and one board-designated endowment fund for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. The net assets associated with endowment funds including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The System has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure on an annual basis by the Board of Directors of the System in a manner consistent with the standard of prudence prescribed by UPMIFA.

Endowment net asset composition by type of fund as of June 30, 2012 and 2011:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds				
Donor-restricted	$ -	$ 15,250,450	$ 15,892,376	$ 31,142,826
Board-designated	26,187,314	-	-	26,187,314
Total endowment funds	$ 26,187,314	$ 15,250,450	$ 15,892,376	$ 57,330,140

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds				
Donor-restricted	$ -	$ 15,914,301	$ 15,892,376	$ 31,806,677
Board-designated	24,969,670	-	-	24,969,670
Total endowment funds	$ 24,969,670	$ 15,914,301	$ 15,892,376	$ 56,776,347

Changes in endowment net assets for the year ended June 30, 2012 and 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at July 1, 2011	$ 24,969,670	$ 15,914,301	$ 15,892,376	$ 56,776,347
Investment income	1,217,644	182,803	-	1,400,447
Appropriation of endowment assets for expenditure	-	(846,654)	-	(846,654)
Endowment net assets at June 30, 2012	$ 26,187,314	$ 15,250,450	$ 15,892,376	$ 57,330,140

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at July 1, 2010	$ 20,046,178	$ 16,214,022	$ 15,892,376	$ 52,152,576
Investment income	4,923,492	810,462	-	5,733,954
Appropriation of endowment assets for expenditure	-	(1,110,183)	-	(1,110,183)
Endowment net assets at June 30, 2011	$ 24,969,670	$ 15,914,301	$ 15,892,376	$ 56,776,347

Description of Amounts classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowments Only)

	2012	2011
Temporarily restricted net assets		
Restricted for indigent care	$ 5,849,379	$ 6,293,064
Restricted for building and maintenance	5,260,732	5,459,375
Restricted for program support	4,140,339	4,161,862
Total temporarily restricted net assets	$ 15,250,450	$ 15,914,301
Permanently restricted net assets		
Restricted for salary support	$ 5,540,298	$ 5,540,298
Restricted for program support	10,352,078	10,352,078
Total permanently restricted net assets	$ 15,892,376	$ 15,892,376

Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor-restricted endowment deficits exist, they are classified as a reduction of unrestricted net assets. There were no deficits of this nature reported in unrestricted net assets as of June 30, 2012 and June 30, 2011.

Strategies Employed for Achieving Investment Objectives

To achieve its long-term rate of return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The System targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

8. Debt

Long-term debt at June 30, 2012 and 2011 consisted of the following:

	Interest Rates	Final Maturity	2012	2011
Series 2010 Revenue Bonds				
2010A	4.00% to 5.00%	2040	$ 73,000,000	$ 73,000,000
2010B	variable	2040	75,000,000	75,000,000
2010C	variable	2040	25,000,000	25,000,000
2010D	2.44%	2020	10,335,000	10,335,000
2010E	3.01%	2025	16,860,000	16,860,000
Series 2009 Revenue Bonds	2.95%	2015	20,905,000	25,570,000
Series 2008 Revenue Bonds				
2008A	variable	2038	55,000,000	55,000,000
2008B	variable	2038	25,000,000	25,000,000
Series 2003 Revenue Bonds	3.80% to 5.25%	2015	17,130,000	20,880,000
Mortgage payable	5.80%	2015	7,482,885	7,839,000
Line of credit and other loans	2.75% to 6.40%	2015	124,645	203,500
			325,837,530	334,687,500
Unamortized premium			1,578,513	1,775,871
Current maturities			(9,319,819)	(8,898,205)
Long-term variable rate debt classified as current			(180,000,000)	(180,000,000)
			$ 138,096,224	$ 147,565,166

The Series 2010 Revenue Bonds consist of $73,000,000 of fixed rate revenue bonds (Series 2010A Bonds), $75,000,000 of variable rate revenue bonds (Series 2010B Bonds), and $25,000,000 of variable rate revenue bonds (Series 2010C Bonds), collectively the Series 2010A/B/C Bonds, $10,335,000 of fixed rate revenue bonds (Series 2010D Bonds) and $16,860,000 of fixed rate revenue bonds (Series 2010E Bonds). The Series 2010A/B/C Bonds along with the Series 2010D Bonds and the Series 2010E Bonds are referred to as the “2010 bond issuance”.

The proceeds from the 2010 bond issuance is primarily used to finance or reimburse Health Services for the construction and expansion of the Wilmington Hospital. The proceeds were deposited into a construction fund as designated by the Bond Trustee (Note 3).

The 2010B Bonds and 2010C Bonds bear interest at a variable rate as determined by a remarketing agent, reset on a weekly and monthly basis, respectively. Interest rates ranged from .03% to .24% for the Series 2010B Bonds and from .11% to .25% for the Series 2010C Bonds.

The Series 2009 Revenue Bonds were issued through a direct placement with a bank and consist of $30,000,000 of fixed rate bonds.

The Series 2008A Bonds bear interest at a variable rate, as determined by a remarketing agent, reset on a daily basis. The Series 2008B Bonds bear interest at a variable rate, as determined by a remarketing agent, reset on a weekly basis. The rates for the Series 2008 Bonds ranged from .01% to .26% during 2012 and .03% to .32% during 2011.

Health Services is obligated to purchase any Series 2010B Bonds, Series 2010C Bonds and Series 2008 Bonds not remarketed. The Series 2010B Bonds, Series 2010C Bonds and Series 2008 Bonds are classified as a current liability on the June 30, 2012 and June 30, 2011 balance sheets. In the event the Series 2010B Bonds, Series 2010C Bonds and Series 2008 Bonds are not remarketed, Health Services would use available cash and investments to meet the obligations. Assuming the remarketing of the Series 2010B Bonds, Series 2010C Bonds and Series 2008 Bonds scheduled maturities are as follows:

2013	$ 9,319,819
2014	9,743,985
2015	10,249,608
2016	16,329,118
2017	7,735,000
Thereafter	272,460,000
	$ 325,837,530

The Mortgage Payable, Line of Credit, and other loans have been guaranteed by Health Initiatives.

Long-Term Debt Obligations

The fair value of long-term debt is based on quoted market prices or estimated using discounted cash flow analyses. The fair value of Health Services long-term debt is $324,211,541 and $326,678,818 at June 30, 2012 and 2011, respectively.

Defeasance
As of June 30, 2012, and 2011, $7,690,000 and $8,700,000, respectively, of advance refunded bonds, which are considered defeased, remain outstanding. The defeasances were accomplished by depositing sufficient funds in an irrevocable escrow account held by a bank trustee. The escrowed account will be used to satisfy all principal and interest requirements relating to the defeasance of the bonds. Health Services was legally released as the primary obligor of the defeased bonds and, accordingly, the obligation to repay these bonds is no longer included in the balance sheets.

9. Interest Rate Swap Agreement

In conjunction with the issuance of the Series 2008 Bonds, Health Services entered into an interest rate swap agreement for a notional amount of $25,000,000 with a financial institution to reduce Health Services' overall interest expense. Under the interest rate swap agreement, Health Services receives payments from the financial institution in the amount of 67% of one month LIBOR. In exchange, Health Services will pay the financial institution a fixed rate. The fair value of the interest rate swap represented an liability of $3,064,048 at June 30, 2012 recorded within other liabilities and an asset of $537,337 at June 30, 2011 recorded within other assets. The change in the fair value of the interest rate swap of $(3,601,385) is recorded as a component of other gains within the statement of operations.

10. Commitments and Contingencies

Leases
The System has various leases for office facilities and other equipment under both cancelable and noncancelable operating leases, with initial terms in excess of one year. Total related lease expense amounted to $13,028,545 and $12,659,324 in 2012 and 2011, respectively. Future minimum lease payments under noncancelable operating leases are as follows:

2013	$ 10,219,909
2014	7,523,173
2015	4,756,913
2016	2,576,137
2017	1,713,386
Thereafter	2,151,615

Litigation
Health Services and CCHHCS are defendants in several matters of litigation all in the ordinary course of conducting business. Management believes the ultimate outcome of these matters will not have a material effect on Health Services or CCHHCS's financial position or the results of operations.

Commitment
In June, 2010 Health Services entered into a ten-year agreement with a vendor to provide information technology remote hosting services. Payments under this commitment will total $34,259,592. At June 30, 2012 the remaining commitment is $25,061,109, of which $3,132,125 will be paid in 2013.

11. Employee Benefit Plans

Pension Plan

Health Services sponsors a noncontributory defined benefit pension plan covering substantially all eligible employees hired on or before August 13, 2006. Employees hired after that date are participants in a defined contribution plan. Contributions to the pension plan are based on the minimum amount required by the Employee Retirement Income Security Act of 1974.

Retirement benefits are paid based principally on years of service and salary. Pension plan assets consist primarily of corporate bonds, notes, U.S. government obligations, and common stocks.

Postretirement Benefits

Health Services provides postretirement health care benefits to eligible employees and their dependents.

The following table sets forth the components of the benefit obligations, plan assets, and funding status of the plan based on actuarial valuations performed as of June 30, 2012 and June 30, 2011:

	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Change in benefit obligation				
Benefit obligation at beginning of year	$ 598,900,924	$ 586,712,273	$ 75,027,590	$ 75,379,077
Service cost	25,846,214	27,258,861	1,953,349	1,218,615
Interest cost	32,026,774	30,795,416	3,705,124	3,757,531
Actuarial loss (gain)	141,508,192	(25,302,990)	21,888,016	(2,349,414)
Retiree contributions	-	-	586,395	541,501
Benefits paid	(27,871,130)	(20,562,636)	(3,840,433)	(3,519,720)
Benefit obligation at end of year	$ 770,410,974	$ 598,900,924	$ 99,320,041	$ 75,027,590
Change in plan assets				
Fair value of plan assets at beginning of year	$ 500,977,223	$ 385,994,319	$ -	$ -
Actual return on plan assets (net of expenses)	73,682,820	83,545,540	-	-
Employer contributions	28,350,000	52,000,000	3,254,038	2,978,219
Retiree contributions	-	-	586,395	541,501
Benefits paid	(27,871,130)	(20,562,636)	(3,840,433)	(3,519,720)
Fair value of plan assets at end of year	$ 575,138,913	$ 500,977,223	$ -	$ -
Reconciliation of funded status to net amount recognized in the balance sheet				
Amounts recorded as accrued liabilities				
Funded status	$ (195,272,061)	$ (97,923,701)	$ (99,320,041)	$ (75,027,590)
Current liabilities	-	-	(4,237,054)	(3,875,000)
Noncurrent liabilities	(195,272,061)	(97,923,701)	(95,082,987)	(71,152,590)
Accrued liability	$ (195,272,061)	$ (97,923,701)	$ (99,320,041)	$ (75,027,590)
Amounts recorded within unrestricted net assets				
Unrecognized prior service cost	960,875	1,244,319	(689,903)	(1,463,766)
Unassigned actuarial loss or (gain)	150,806,297	61,044,070	13,297,649	(9,217,597)
Net amount recognized at year end	$ (43,504,889)	$ (35,635,312)	$ (86,712,295)	$ (85,708,953)
Accumulated benefit obligation	$ 673,383,587	$ 510,388,439	$ -	$ -

	Pension Benefits 2012	Pension Benefits 2011	Postretirement Benefits 2012	Postretirement Benefits 2011
Weighted-average assumptions used to determine benefit obligations at June 30				
Discount rate	3.875 %	5.500 %	3.875 %	5.250 %
Rate of compensation increase	2.500 %	4.000 %	-	-

	Pension Benefits 2012	Pension Benefits 2011	Postretirement Benefits 2012	Postretirement Benefits 2011
Components of net periodic benefit cost				
Service cost	$ 25,846,214	$ 27,258,861	$ 1,953,349	$ 1,218,615
Interest cost	32,026,774	30,795,416	3,705,124	3,757,531
Expected return on plan assets	(27,965,970)	(29,303,210)	-	-
Amortization of prior service cost (credit)	283,444	283,444	(773,863)	(943,968)
Recognized actuarial loss (gain)	6,029,115	9,054,553	(627,230)	(224,749)
Net periodic benefit cost	36,219,577	38,089,064	4,257,380	3,807,429
Other changes in pension liability recognized in unrestricted net assets				
Net actuarial loss (gain)	95,791,342	(79,545,320)	21,888,016	(2,349,414)
Amortization of (gain) loss	(6,029,115)	(9,054,553)	627,230	224,749
Amortization of prior service (cost) credit	(283,444)	(283,444)	773,863	943,968
Total recognized in unrestricted net assets	89,478,783	(88,883,317)	23,289,109	(1,180,697)
Total recognized in net benefit cost and unrestricted net assets	$ 125,698,360	$ (50,794,253)	$ 27,546,489	$ 2,626,732

	Pension Benefits 2012	Pension Benefits 2011	Postretirement Benefits 2012	Postretirement Benefits 2011
Weighted-average assumptions used to determine net periodic benefit cost at beginning of fiscal year				
Discount rate	5.500 %	5.375 %	5.250 %	5.250 %
Expected return on plan assets	6.500 %	7.750 %	-	-
Rate of compensation increase	4.000 %	4.040 %	-	-

Health Services expects to recognize approximately $18,109,704 of expense for pension benefits and approximately $515,413 of gain for postretirement benefits during the year ending June 30, 2013 related to amortization of net losses and prior service cost.

The expected rate of return on plan assets assumption was developed based on historical returns for the major asset classes. This review also considered both current market conditions and projected future contributions.

Health Services utilizes published long-term high quality corporate bond indices to determine the discount rate at measurement date. Where commonly available, Health Services considers indices of various durations to reflect the timing of future benefit payments.

Plan Assets

Pension plan weighted average asset allocations at June 30, 2012 and June 30, 2011 by asset category are as follows:

Asset Category	2012	2011
Equities	32 %	35 %
Fixed income	68 %	65 %
	100 %	100 %

The plan assets are invested among and within various asset classes in order to achieve sufficient diversification in accordance with Health Services risk tolerance. This is achieved through the utilization of asset managers and systematic allocation to investment management styles, providing exposure to different segments of the fixed income and equity markets.

The following table represents the Plan's financial instruments as of June 30, 2012, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 3:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 20,318,239	$ -	$ -	$ 20,318,239
U.S. Government and agency securities	62,383,159	-	-	62,383,159
Corporate and other debt securities	-	291,929,838	-	291,929,838
Equity securities	96,524,033	76,495,678	-	173,019,711
Equity managed funds	-	-	27,487,966	27,487,966
	$ 179,225,431	$ 368,425,516	$ 27,487,966	$ 575,138,913

The following table illustrates the change in Level 3 assets:

	Equity Managed Funds
Fair value July 1, 2011	$ 23,090,829
Purchases	5,267,755
Net change in unrealized gains/losses	(870,618)
Fair value June 30, 2012	$ 27,487,966

Contributions

In May 2012, Health Services contributed $27,900,000 to the pension plan in advance of the expected September, 2012 required contribution. Health Services expects to contribute approximately $24,600,000 to the pension plan and $4,237,054 to the postretirement benefit plan during the fiscal year ending June 30, 2013. The actual pension plan contribution may be higher or lower depending on interest rates, pension plan asset values, and legislated funding requirements.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits	Postretirement Benefits
2013	$ 37,315,299	$ 4,237,054
2014	36,860,240	4,616,172
2015	38,405,248	4,993,564
2016	40,555,053	5,236,921
2017	43,212,264	5,466,779
Thereafter	243,344,755	29,865,551

An 8.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for June 30, 2012; the rate was assumed to decrease gradually to 5% for the fiscal year 2018 and remain at that level thereafter.

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total service and interest cost	$ 946,380	$ (766,395)
Effect on postretirement benefit obligation	13,753,163	(11,392,915)

Defined Contribution Retirement Plan

Health Services sponsors a defined contribution retirement plan for all employees hired after August 13, 2006. Eligible employees in Health Service's noncontributory defined benefit pension plan also had the one-time choice to switch to the defined contribution retirement plan effective January 1, 2007. Under the plan, Health Services contributes a percent of compensation quarterly based on an employee's years of vesting service. The employees vest in the employer contributions over a three-year period beginning on the employee's hire date. The expense incurred by Health Services for the year ended June 30, 2012 and 2011 was $6,335,774 and $5,256,382, respectively.

Deferred Compensation Plan

Health Services maintains a Tax-Deferred Annuity Plan for all employees. Under the Plan, Health Services accumulates employee contributions which are transferred to and invested by various trustees. Health Services contributes 50% of the employee contributions up to a maximum of 3% of an employee's salary. Contributions for the years ended June 30, 2012 and 2011 were $9,972,814 and $9,492,688, respectively.

CCHHCS Pension Plan

CCHHCS sponsors a noncontributory defined benefit pension plan covering substantially all eligible employees (the "Plan"). Generally, benefits under the Plan are based on the employee's compensation and years of service. Contributions to the Plan are designed to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974. Employees are on a graduated vesting scale and become fully vested after seven years of service.

The following tables set forth the components of the benefit obligation, plan assets, and funding status of the plan based on actuarial valuations performed as of June 30, 2012 and June 30, 2011:

	2012	2011
Change in benefit obligation		
Benefit obligation at beginning of year	$ 26,761,884	$ 25,718,102
Service cost	1,191,747	1,280,024
Interest cost	1,484,872	1,395,760
Actuarial loss (gain)	5,582,863	(1,112,977)
Benefits paid	(588,246)	(519,025)
Benefit obligation at end of year	$ 34,433,120	$ 26,761,884
Change in Plan assets		
Fair value of plan assets at beginning of year	$ 22,327,844	$ 17,513,093
Actual return on plan assets (net of expenses)	2,725,129	3,254,776
Employer contributions	1,400,000	2,079,000
Benefits paid	(588,246)	(519,025)
Fair value of plan assets at end of year	$ 25,864,727	$ 22,327,844
Reconciliation of funded status to net amount recognized in the balance sheet		
Amounts recorded as accrued liabilities		
Funded status	$ (8,568,393)	$ (4,434,040)
Accrued liability	(8,568,393)	(4,434,040)
Amounts recorded within unrestricted net assets		
Unassigned actuarial loss	10,973,341	7,316,446
Net amount recognized at year end	$ 2,404,948	$ 2,882,406
Accumulated benefit obligation	$ 31,515,692	$ 23,350,637

	2012	2011
Weighted-average assumptions as of end of year benefit obligations at June 30		
Discount rate	4.000 %	5.625 %
Rate of compensation increase	2.500 %	4.000 %

	2012	2011
Components of net periodic benefit cost		
Service cost	$ 1,191,747	$ 1,280,024
Interest cost	1,484,872	1,395,760
Expected return on plan assets	(1,387,857)	(1,489,528)
Recognized actuarial loss	588,696	701,222
Net periodic benefit cost	1,877,458	1,887,478
Other changes in pension liability recognized in unrestricted net assets		
Net actuarial loss (gain)	4,245,591	(2,878,225)
Amortization of (gain)	(588,696)	(701,222)
Total recognized in unrestricted net assets	3,656,895	(3,579,447)
Total recognized in net benefit cost and unrestricted net assets	$ 5,534,353	$ (1,691,969)

	2012	2011
Weighted-average assumptions used to determine net periodic benefit cost at beginning of fiscal year		
Discount rate	5.625 %	5.500 %
Expected return on plan assets	6.500 %	7.750 %
Rate of compensation increase	4.000 %	4.000 %

CCHHCS expects to recognize approximately $1,324,802 of expense for pension benefits during the year ending June 30, 2013 related to amortization of net losses and prior service cost.

The expected long-term rate of return on plan assets assumption of 6.50% was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 – *Selection Economic Assumptions for Measuring Pension Obligations.* Based on Christiana Care Home Health and Community Services, Inc.'s investment policy for the pension plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30-year period rolling averages. An average inflation rate within the range equal to 3.75% was selected and added to the real rate of return range to arrive at a best estimate range of 7.7% to 9.8%. While 6.50% is slightly below the low-point of this range, it was deemed acceptable by management and CCHHCS' outside actuary.

Plan Assets

Pension plan weighted average asset allocations at June 30, 2012 and June 30, 2011 by asset category are as follows:

	2012	2011
Asset Category		
Equities	25 %	36 %
Fixed income	75 %	64 %
	100 %	100 %

The plans assets are invested among and within various asset classes in order to achieve sufficient diversification in accordance with CCHHCS risk tolerance. This is achieved through the utilization of asset managers and systematic allocation to investment management styles, providing exposure to different segments of the fixed income and equity markets.

The following table represents the Plan's financial instruments as of June 30, 2012, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 3:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 4,945,160	$ -	$ -	$ 4,945,160
U.S. Government and agency securities	5,070,485	-	-	5,070,485
Corporate and other debt securities	9,350,702	-	-	9,350,702
Equity securities	4,998,380	-	-	4,998,380
Equity managed funds	-	-	1,500,000	1,500,000
	$ 24,364,727	$ -	$ 1,500,000	$ 25,864,727

	Equity Managed Funds
Fair value at July 1, 2011	$ -
Purchases	1,500,000
Net change in unrealized (loss)	-
Fair value at June 30, 2012	$ 1,500,000

Contributions

In May 2012, CCHHCS contributed approximately $1,400,000 to the pension plan in advance of the expected September 2012 required contribution. CCHHCS expects to contribute approximately $1,150,000 to the pension plan during the fiscal year ending June 30, 2013. The actual pension plan contribution may be higher or lower depending on interest rates, pension plan asset values, and legislated funding requirements.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2013	$ 833,302
2014	970,883
2015	1,092,738
2016	1,203,748
2017	1,332,625
Thereafter	8,566,229

Defined Contribution Retirement Plan

CCHHCS began a defined contribution plan for all employees hired on or after August 26, 2007. Eligible employees in CCHHCS's noncontributory defined benefit pension plan also had the one-time choice to switch to the defined contribution retirement plan effective January 1, 2008. Under the plan, CCHHCS contributes a percent of compensation quarterly based on an employee's years of vesting service. The employees vest in the employer contributions over a three-year period beginning on the employee's hire date. The expense incurred by CCHHCS for the year ended June 30, 2012 and 2011 was $277,422 and $249,206, respectively.

Deferred Compensation Plan

CCHHCS maintains a Tax-Deferred Annuity Plan (the "Plan") for all employees. Under the Plan, CCHHCS accumulates employee contributions which are transferred to and invested by the trustee. CCHHCS is not required to make additional contributions on behalf of employees and did not make any contributions in 2012 or 2011.

12. Self Insurance Liabilities

The System maintains self-insurance programs for medical malpractice and worker's compensation claims. The medical malpractice program provides for a self insured retention of $3,500,000 per claim and $14,000,000 annual aggregate. The limit of excess coverage is $25,000,000 per year for the System and all subsidiaries.

Health Initiatives is insured for medical malpractice claims under a claims-made policy. Should the policy not be renewed or replaced with equivalent insurance, claims arising out of incidents during its term, but reported subsequently, will be uninsured. The policy includes a deductible of $25,000 per claim and $75,000 annual aggregate limits of $2,000,000 per claim and $6,000,000 annual aggregate.

Actuarially determined accruals for asserted and unasserted medical malpractice and worker's compensation claims at June 30, 2012 and 2011 amounted to $38,465,540 and $39,896,424, respectively. This liability represents the undiscounted estimated value of malpractice and worker's compensation claims that will be settled in the future based on anticipated payout patterns. Total expense incurred for medical malpractice and worker's compensation costs was $9,157,706 in 2012 and $(2,097,824) in 2011. During 2011 the System lowered the confidence level of the actuarially determined self insurance accruals from the 99th percentile to the 75th percentile. This adjustment is the result of improvements in the risk management processes within the System. Accordingly, in 2011, supplies and other expenses were reduced by $10.6 million for the adjustment to medical malpractice accruals and employee benefits were reduced by $2 million for the adjustment to workers compensation accruals.

13. Charity Care, Government Discounts, and Provision for Bad Debts

The System provides services to patients who meet the criteria of its charity service policy without charge or at amounts less than the established rates. Criteria for charity care consider the patient's family income, net worth, etc. Direct and indirect costs for these services amounted to $28.1 million and $27.2 million in 2012 and 2011, respectively. The costs of providing charity care services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients.

In addition, to charity services, the Medicaid program reimburses the System for services at amounts that are substantially less than the cost to provide such services. The difference between the cost to provide those services and the reimbursement from the Medicaid program was approximately $25.3 million and $24.9 million in 2012 and 2011, respectively.

The System also records a provision for bad debts, which represents management's estimate of patient accounts receivable that will not be collected even though the patient does not meet the charity care criteria. The provision for bad debts was $32,424,642 and $30,245,716 in 2012 and 2011, respectively.

14. Concentrations of Credit Risk

Financial instruments which potentially subject the System to concentrations of credit risk consist principally of cash, cash equivalents, investments, and accounts receivable.

Management periodically evaluates the credit standing of the financial institutions with whom they maintain their cash, cash equivalents, and investments. Amounts held in its accounts often exceed the federally insured levels.

Included in accounts receivable are amounts related to the services performed for individuals, as well as under various contractual agreements with several third-party payors. Management believes its concentration of credit risk, with respect to accounts receivable, is limited by a large customer base.

15. Functional Expenses

The System provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	2012	2011
Health care services	$ 1,183,646,103	$ 1,144,765,001
General and administrative	157,092,093	141,110,059
	$ 1,340,738,196	$ 1,285,875,060

16. Discontinued Operations

During the 2012 fiscal year, Health Services sold the business operations of Occupational Health Services (OHS) and abandoned the operations of All About Women of Christiana Care (AAWCC). During the 2012 fiscal year Health Services executed an agreement to sell the ownership of the OHS operation to a third party. The ownership was officially transferred in January 2012.

AAWCC is a subsidiary corporation of Health Services and was formed in November, 2005 to provide professional medical and surgical services for women needing specialized care in obstetrics and gynecology. AAWCC contracted with a group of physicians that provide professional services. During the 2012 fiscal year AAWCC and the principal physicians declined to renew the employment agreement effective July 1, 2012. AAWCC does not intend to operate in the future and all professional services ended on June 30, 2012.

During 2008, Health Services executed a definitive agreement to sell the ownership and management of the skilled nursing service at the Riverside Health Care Center to a third party. On

August 1, 2008, Health Services sold the ownership and management of the skilled nursing service at the Riverside Health Care Center. The buyer operated the skilled nursing service at the Riverside Health Care Center location until the construction of a new facility was completed in November, 2009. At this time Health Services committed to a plan to sell the associated assets of the Riverside Health Center (Note 5). During 2011 Health Services revised its estimate of the fair value of the Riverside property. Accordingly, Health Services reduced the value of assets held for sale by $3,616,301. This amount is recorded as a component of discontinued operations.

Limestone Medical Imaging, L.L.C, a joint venture which Health Initiatives ownership interest is 51%, elected in May 2010 to discontinue operations. The company expects to shut operations no later than October 31, 2010. No significant proceeds are expected from the sale of assets. The effective date of closure coincides with the end of the space lease term in October 2010.

Below is a summary of the discontinued operations for the years ended June 30, 2012 and 2011:

	2012	2011
Unrestricted revenues, gains, and other support	$ 8,869,820	$ 7,005,732
Expenses	9,264,190	10,722,079
Effect of discontinued operations	$ (394,370)	$ (3,716,347)

Schedule of Expenditures of Federal Awards

Christiana Care Health System and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Pass Through Entity Identifying Number	Federal CFDA#	Federal Expenditures
Research Development and Research Training Cluster			
U.S. Department of Health & Human Services			
Direct Awards			
Cancer Control		93.399	$ 1,227,220
ARRA - Trans-NIH Recovery Act Research Support - CCOP		93.701	11,426
ARRA - Trans-NIH Recovery Act Research Support - TROPONIN		93.701	58,171
Child Health and Human Development Extramural Research		93.865	925,267
Total Direct Awards			**2,222,084**
Pass-Through Awards			
Children & Families First DE, Inc. / ARC	Title X Funds	93.217	29,999
Temple University - Using a Telemedicine System	360526-04730-02	93.226	6,812
Columbia University - Sleep Disturbance & Risk	5-20884	93.233	10,491
Columbia University - CIRAR	5-36366	93.361	88,133
University of Delaware - Year 1 - 2nd Generation INBRE	25510	93.389	(43,706)
University of Delaware - Year 3 - 3rd Generation INBRE	25510	93.389	155,890
University of Chicago - Cancer Treatment Research - CALBG	U10 CA31946	93.395	514
NSABP Foundation - Colorectal Cancer	U10CA12027 CCH-YR41ext.	93.395	36,450
Fox Chase Cancer Center/Couple-Focused Interv. For Breast Cancer Pts.	16129-11	93.395	172,526
University of Delaware/ Couples Coping With Breast Cancer	20202	93.395	445
Thomas Jefferson University - Tailored Navigation	080-27000-R84401	93.399	(2,994)
University of Maryland - PAPI - 2 - Clinical Site	SR00001934	93.837	634
University of Maryland - PAPI - 2 - CCOR	SR00001933	93.837	5,181
Johns Hopkins University/LV Structural Predictors	2001184188	93.837	10,960
Washington University - Attract	WU-09-227	93.839	10,350
University of Pennsylvania/Albumin In Acute Stroke (ALIAS)	ALIAS Task Order 1	93.853	9,642
ARRA - American College of Cardiology Foundation - ACCF STS ASCERT	5 RC2HL101489-02	93.701	101,000
ARRA - Columbia University - Fetal Growth	5-39826	93.701	358,645
ARRA - Columbia University - Nulliparous Patients	5-39176	93.701	150,764
ARRA - University of Pennsylvania/POINT	POINT Task Order 1	93.701	18,111
Columbia University - NuMom 2B - Outcomes	5-25966	93.865	229,465
Columbia University/NUMOM2B – Sleep Disordered Breathing	5-25966	93.865	49,257
Columbia University - NICHD - Thyroid - TSH	5-20734	93.865	(15,559)
Columbia University - Nulliparous Network	5-35632	93.865	83,181
Columbia University - ALPS	5-20734	93.865	9,216
Columbia University - STANRCT - MFMU	5-20734	93.865	84,983
Columbia University - NUMOM2B Fetal Adrenal	5-30279	93.865	17,650
Columbia University - Fetal Growth	5-36861	93.865	254,783
Penn State University - Parenting Program for Couples	4334-CCHS-DHHS-8529	93.865	24,333
Total Pass-Through Awards			**1,857,156**
Total U.S. Department of Health & Human Services			**4,079,240**
U.S. Department of Defense			
Pass-Through Awards			
University of Delaware / BADER Consortium	27814	12.420	3,320
Total Pass-Through Awards			**3,320**
Total U.S. Department of Defense			**3,320**
Total Research Development and Research Training Cluster			**4,082,560**
Other Programs			
U.S. Department of Health & Human Services			
Direct Awards			
Maternal and Child Health Federal Consolidated Programs		93.110	121,787
Coordinated Services and Access to Research for Women, Infants, Children, and Youth		93.153	383,231
Grants for Primary Care Training and Enhancement		93.884	160,010
Health Care and Other Facilities		93.887	5,913
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease		93.918	846,795
Total Direct Awards			**1,517,736**

Christiana Care Health System and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Pass Through Entity Identifying Number	Federal CFDA#	Federal Expenditures
U.S. Department of Health & Human Services			
Pass-Through Awards			
National Association of County and City Health Officials (NACCHO)	MRC-12-57	93.008	5,425
Children's Hospital of Philadelphia - Hemophilia - HRSA	950757RSUB	93.110	14,325
Nemour's Children Clinic - Transition Navigator - HRSA	6U22MC03956073	93.110	12,000
University of Pittsburgh - AIDS Regional Education & Training Center	0019469 (119266-1)	93.145	284,307
Brandywine Counseling - SAMSHA	5H79TI018745-05	93.243	208,800
Ryan White Title II	11-345 & 12-364	93.917	3,259,061
Thomas Jefferson University - Geriatric Education Center Grant	080-36000-M05905	93.969	39,081
State of Delaware/Birth Defects Surveillance Registry	12-190	93.994	156,502
Children's Hospital of Philadelphia / National Children's Study	950038RSUB	93.unknown	10,355
Children's Hospital of Philadelphia/National Children's Study Supplement	950982RSUB	93.unknown	3,566
Total Pass-Through Awards			**3,993,422**
Total U.S. Department of Health and Human Services			**5,511,158**
U.S. Department of Justice			
Pass-Through Awards			
Criminal Justice Council - SANE Training / On-Call Project	2011WFAX0027	16.588	33,264
Total Pass-Through Awards			**33,264**
Total U.S. Department of Justice			**33,264**
U.S. Department of Agriculture			
Pass-Through Awards			
ARRA - University of Delaware - INBRE Admin Supplement	21241	10.500	27,237
State of Delaware/WIC - Breastfeeding Peer Counselor Program	12-219	10.557	121,373
Total Pass-Through Awards			**148,610**
Total U.S. Department of Agriculture			**148,610**
Total Other Programs			**5,693,032**
Total Expenditures of Federal Awards			**$ 9,775,592**

1. General

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Christiana Care Health System and Affiliates (the "System"). The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audit of States, Local Governments, and Non Profit Organizations*. Therefore, some information presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. Negative amounts represent adjustments or credits to amounts report as expenditures in prior years. CFDA numbers and pass-through numbers are provided when available.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards has been prepared on an accrual basis of accounting.

3. Subrecipients

Of the federal expenditures presented in the Schedule, the System provided federal awards to subrecipients as follows:

Program Title	Federal CFDA#	Amount Provided to Subreceipients
JNMC Global Network	93.865	$ 764,500
Cooperative Clinical Research Agreement	93.399	44,758
		$ 809,258

Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
Christiana Care Health System and Affiliates:

We have audited the financial statements of Christiana Care Health System (the "System") as of and for the year ended June 30, 2012, and have issued our report thereon dated September 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the System in a separate letter dated September 21, 2012.

This report is intended solely for the information and use of the System's management, Board of Directors, Audit and Compliance Committee, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

September 13, 2012

Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Directors
Christiana Care Health System and Affiliates:

Compliance

We have audited the compliance of Christiana Care Health System and Affiliates (the "System") with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the System's management. Our responsibility is to express an opinion on the System's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the System's compliance with those requirements.

In our opinion, the System complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the System's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of the System's internal control over compliance.

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A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Board of Directors, Audit and Compliance Committee, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

January 22, 2013

Section I - Summary of Auditor's Results

Financial Statements

(i)	Type of auditor's report issued		Unqualified
(ii)	Internal control over financial reporting:		
	Material weakness(es) identified?	___ yes	_X_ no
	Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ yes	_X_ none reported
(iii)	Noncompliance material to financial statements noted?	___ yes	_X_ no

Federal Awards

(iv)	Internal control over major programs:		
	Material weakness(es) identified?	___ yes	_X_ no
	Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ yes	_X_ none reported
(v)	Type of auditor's report issued on compliance for major programs:		Unqualified
(vi)	Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	___ yes	_X_ no
(vii)	Identification of major programs:		

CFDA Number(s)	Name of Federal Program or Cluster
Various	Research Development and Research Training Cluster
93.917	Ryan White Title II
10.557	State of Delaware/WIC - Breastfeeding Peer Counselor Program
93.884	Grants for Primary Care Training and Enhancement

Dollar threshold used to distinguish between type A and type B programs:	$300,000	
Auditee qualified as low-risk auditee?	___ yes	_X_ no

Christiana Care Health System and Affiliates
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section II - Financial Statement Findings and Responses

No matters to report

Section III - Federal Award Findings and Questioned Costs

No matters to report

Summary Schedule of Prior Audit Findings

Finding 2011-1: Failure to prepare an accurate Schedule of Expenditures of Federal Awards (SEFA)
Various Pass-Through Awards

Condition
In FY 2011, the System did not prepare a complete SEFA in accordance with OMB Circular A-133 Section 310(b). Certain expenditures for federal awards not received directly were inappropriately excluded.

Status
Christiana Care Health System (CCHS) has experienced significant turnover of personnel within the Office of Sponsored Programs. A staffing reorganization was completed during the 2012 fiscal year and the finance function within the Office of Sponsored Programs now reports directly to the Vice President and Controller. Procedures have been developed to ensure completeness of the Schedule of Expenditures of Federal Awards (SEFA). These procedures include identification of Federal Awards in instances which CCHS is the sub-awardee during proposal preparation, during the administrative review process of all sponsored program agreements, and cost center initiation along with a reconciliation of Federal expenditures between the general ledger and the SEFA . These procedures were operationalized during the 2012 fiscal year and are the responsibility of the Office of Sponsored Programs with oversight provided by the Office of the Controller.